



The Investment Monitor for the Province of KwaZulu-Natal

March 2011

KZN fixed investment growing fast

Fixed investment, an important driver of economic growth and job creation in KwaZulu-Natal, is fast turning positive with growth above the national average.

The total investment index of KwaZulu-Natal's latest provincial investment index, as compiled by economist Mike Schüssler of Economists.co.za, grew by 16.6% year-on-year, the strongest growth rate in four years. And despite fixed investment still struggling in most parts of the country, KwaZulu-Natal saw a 14.5% quarter-on-quarter growth in March.

The rand traded at below R7 to the dollar for most of March and continued to support the purchases of machinery, transport equipment and ICT equipment.

Machinery still on the up

Investment in machinery, which accounts for the biggest part of the fixed investment spending in KwaZulu-Natal – 36% – grew by 35.1% year-on-year and 15.3% quarter-on-quarter. This is due to businesses in the province exploiting the record-low prime interest rate and the rand's strong exchange rate to upgrade their equipment.

Sub-Saharan Africa boom and aircraft imports boost transport equipment

Investment in transport equipment, which accounts for 14% of fixed investment spending in the province, performed best in March. It grew by 27.6% year-on-year and 44.5% quarter-on-quarter. The strong performance in this sub-sector is partly due to the commercial boom in the rest of Africa and especially sub-Saharan Africa, as a large portion of goods to and from the region is transported via KwaZulu-Natal and its ports. In some cases, the demand for goods from the rest of the region far exceeds KwaZulu-Natal's ports' capacity and goods have to be shipped through Cape Town harbour.

Expenditure on trucks grew by 12.5% year-on-year and money spent on air and sea transport equipment by 60.4% – the strongest growth in more than two years, compared to a 10.1% decline the previous month. The index was partly supported by airlines like Comair and Mango buying some new aircraft. Aircraft imports for the whole of South Africa amounted to R3 billion in March. The recent agreement between Comair and Dube Trade Port to allow the airline to fly directly from the King Shaka International Airport at La Mercy to London's Gatwick Airport, most probably from the end of this year, could mean further investment in aircraft and so further transport equipment growth.

While commercial aircraft imports are volatile it must be remembered that this is still a very good sign of investor confidence.

Civil construction turning the corner

Investment in civil construction, the second-largest sub-sector of fixed investment spending in the

province, was the only sub-sector not showing year-on-year growth in March. But on a quarter-on-quarter basis it grew by 10.9%, the fastest growth recorded since October 2009, suggesting recovery in the sector. Growth in civil construction investment will probably not follow the fast pace of last year's Soccer World Cup run-up, but any extent of growth will have a positive impact on job creation.

Glimmer of hope for buildings investment and transfers

Investment in buildings grew by 2.5% year-on-year in March, the first year-on-year growth since August 2009. This fixed investment sub-sector is still struggling to recover from the national downturn in the property sector. Also, given the amount of trouble associated with the property sector, such as lacklustre demand and prices and numerous property developments going bust in the aftermath of the global recession, it is increasingly difficult for anyone but the biggest players to achieve success.

Transfers in KwaZulu-Natal were partly supported by the building statistics' growth recovery. It grew 12.1% year-on-year and 0.8% quarter-on-quarter.

ICT equipment tapering off as supply shortfall persist

Investment in ICT equipment, which showed strong double-digit year-on-year growth during 2010, shows a second consecutive month of mild growth. ICT equipment investment grew by only 3% year-on-year. However, it grew by 1.7% quarter-on-quarter after a quarter-on-quarter decline in February. The slowdown in growth could be attributed to supply constraints rather than a decline in demand.

Table 1: Changes in the KZN Investment monitor (Seasonally adjusted)

Main and sub indices of the Kwa-Zulu Investment Monitor	% Change on a year ago	% Change from quarter ago
Transport Equipment	27.6%	44.5%
Buildings	2.5%	7.2%
Civil Construction	-11.4%	10.9%
Machinery	35.1%	15.3%
ICT Equipment	3.0%	1.7%
Transfers	12.1%	0.8%
Total Investment Index	16.6%	14.5%